91-04970/

ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1989 - 1990)

Established by an Act of the Provincial Legislature in June, 1969, the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

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PRINCE EDWARD ISLAND
LENDING AUTHORITY

LETTER OF TRANSMITTAL

July 10, 1990

The Honourable Gilbert R. Clements
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Honourable Sir:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Prince Edward Island Lending Authority for the fiscal year ended March 31, 1990.

As required by the Lending Authority Act and Regulations, the report includes Financial Statements and the Auditor's Report

Respectfully submitted,

Peggy M. Coady

Ms. Peggy M. Coady
Chairman

CORPORATE DIRECTORY
AS OF MARCH 31, 1990

EXECUTIVE

Ms. Peggy M. Coady
Chairman of the Board
Small Business, Charlottetown

Everett MacFarlane
Vice-Chairman
Tourism, Charlottetown

* **William M. Jay**
Secretary-Treasurer and
General Manager

MEMBERS OF THE BOARD

Clayton Bulpitt
Roseneath
Agriculture

Daniel MacLean
Tyne Valley
Agriculture

Wayne Harris
Murray Harbour
Fisheries

Warren Ellis
Mount Royal
Agriculture

Sheldon Hume
Murray Harbour
Member-At-Large

Ms. Dale Dewar
General Manager
Land Development Corporation

Douglas A. Cameron
Deputy Minister
Department of Fisheries

Dr. Gordon MacEachern
Deputy Minister
Department of Agriculture

W.P. MacDougall, C.A.
Deputy Minister
Department of Finance

* **Non Voting**

CORPORATE PROFILE

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1989 - 1990)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.
- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — loans may be obtained for a three year period repayable in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.
- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES AND AQUACULTURE

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season, and in Aquaculture not later than 24 months after the date on which the credit was granted.
- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.
- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities and for consolidation of existing debt. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Business for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.
- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million dollars in the preceding fiscal year.
- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

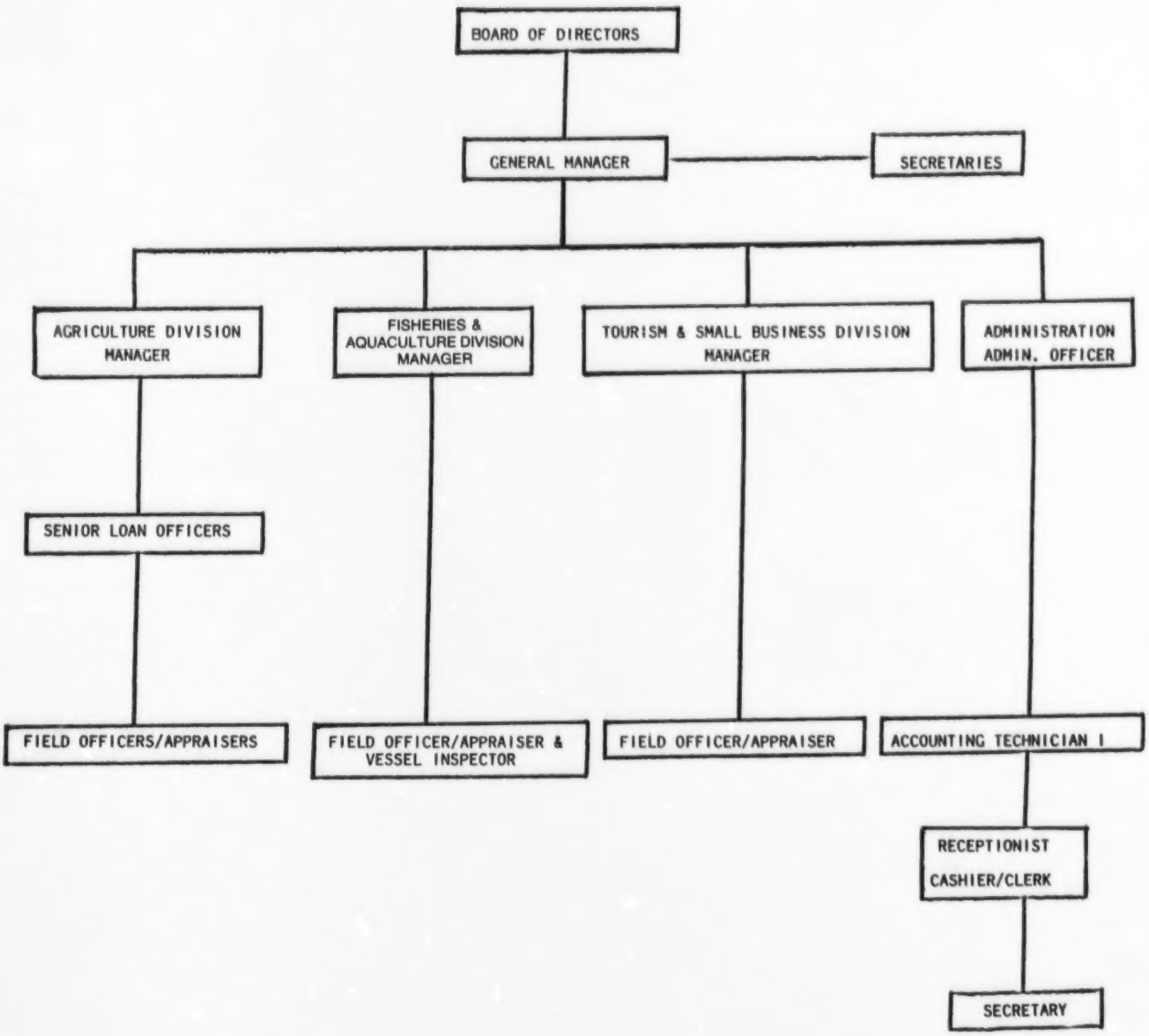
- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- interest rates on Capital Loans and Operating Credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

ORGANIZATIONAL CHART

PRINCE EDWARD ISLAND LENDING AUTHORITY



REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1989 - 1990)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fishermen, tourist operators and small business persons in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers, tourist operators, and small business persons, the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loan portfolios of the lending agencies of the Government of Prince Edward Island existing prior to April, 1970.

The Authority, now in its twenty-first year of operation, has been accepted by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

ANNUAL REPORT OF THE GENERAL MANAGER

It is both a privilege and pleasure for me to present this, my 21st, Annual Report as General Manager. The year under review was indeed a productive year for the Lending Authority with a substantial increase being recorded in all divisions in both the volume of applications received and loan offers approved.

During the fiscal year 1989/90, applications received increased from 311 in the previous year to 379 with a dollar value of $30,147,057., approximately $5,000,000. in excess of the previous fiscal year. A complete report on applications received and the disposition of those applications will be found on page ten of this Annual Report. It will be noted that 284 applications in all divisions totalling $20,456,242. were approved and loan offers extended. This represents an approximate approval rate of 67.85% of applications received.

As in previous years, we will expand on our report by divisions as follow:

AGRICULTURAL DIVISION

As indicated in my general comments, there has been an increase in loans and credit approved in this division, the total being approximately $1.4 million dollars in excess of what was approved in the previous fiscal year. The total of term loans and operating credit approved of $9,476,507. is a substantial investment in the agricultural industry in this province.

While there are still some problem loans in this portfolio, nevertheless, in our opinion considerable progress has been attained over the past several years and, at the present time, there are no serious delinquency problems as was the case during the mid to late 1980's and, at the present time, arrears are running only slightly in excess of 4% of the total portfolio.

Structural changes which have been taking place in the agricultural industry over the past several years have now reached a point where most Island farms are now being effectively managed and these farms must take up the challenge of producing for the new global market place in which we must now compete and which market will be accentuated under the Canada-U.S. Free Trade Agreement and the changes which are being proposed under the General Agreement on Tariffs and Trade. The challenge now for the Lending Authority is to find new and innovative methods of financing with which to support this industry as it takes up the challenge of producing for the global market place which it must do to not only survive, but to prosper.

FISHERIES AND AQUACULTURE DIVISION

Our Fisheries and Aquaculture Division recorded an increase in both the number of applications received and in total dollar value over the previous fiscal year with 163 applications being received for a total value of $7,536,764. Term loans approved included loans for the construction and/or purchase of 34 new inshore/nearshore fishing vessels.

The loan portfolio is in good standing with no vessels having been "arrested" or any losses incurred during the fiscal year. While the fishing industry may well experience a "down" year in 1990, nevertheless, we foresee no difficulty in the immediate future in this portfolio.

One hundred and thirty-two applications were approved for a total of $5,912,696.

TOURISM DIVISION

Term loans and operating credit extended in this division during the year under review totalled $3,073,605., which is an increase of approximately $500,000. from the previous fiscal year.

Thirty-three tourist operators took advantage of the Authority's programs during the year as compared to 25 during the previous year. However, activity in this division has slowed substantially over the past number of years due, primarily, to what can be considered as a slow down in the industry.

Several problem loans were experienced in this portfolio during the past year with a number of Receiverships, Mortgage Sales and Quit Claim Deeds having been experienced. Presently, there are approximately 15 term loans in varying stages of default and, it is obvious that unless there is a better than average year during the 1990 season, that some of these operations will fail.

The Conference Board of Canada, at its Annual Outlook Conference in Halifax in February of 1990 predicted that the industry in Atlantic Canda will remain "flat" during 1990 and that, with the introduction of the Goods and Services Tax in 1991, there could be a serious slowdown in the industry.

Obviously, the industry must not only undertake an enhanced marketing program, but it must also endeavor to stem the growth of new facilities in roofed accommodation, food establishments and attractions as the industry now stands the risk of being overbuilt in its infrastructure.

SMALL BUSINESS DIVISION

The Small Business Division received 22 applications during the year for a total of $3,631,925. Of this amount, 15 were approved in the approximate amount of $2,000,000.

There has been no substantial growth in this division over the past several years, however, it can be anticipated that, if interest rates remain high, many small business operators may have to consider the restructuring of their business financing which could see an increase in the number of term loans in this division.

There were no foreclosures and no losses experienced in this division during the year under review and the portfolio is in good standing.

TO CONCLUDE OUR REPORT, during the past fiscal year notwithstanding an ever-expanding loan portfolio with increased operating costs, we were, nevertheless, able to maintain our cost of operation within our allotted budget.

The Authority is now finalizing the computerization of its operations and we expect that we will be fully operational by July of this year. Problems were experienced in the original software, however, we are most pleased to advise that those problems have now been overcome with the assistance of On Line Systems Inc. of Charlottetown.

At the last Annual Meeting of the Lending Authority, Ms. Peggy M. Coady of Charlottetown was re-elected Chairman of the Board with Mr. Everett R. MacFarlane, also of Charlottetown, re-elected as Vice-Chairman. As General Manager, I also fulfill the office of Secretary-Treasurer and Chief Operating Officer.

During the past year, there were several changes in the complement of the Board of Directors with Dr. Gordon MacEachern joining the Board in his position as Deputy Minister of the Department of Agriculture, and Mr. Douglas A. Cameron also joining the Board in his position as Deputy Minister of the Department of Fisheries and Aquaculture.

There were no changes in our staff complement during the year and we would be remiss if we did not in this Annual Report recognize the untiring efforts of our staff who are totally committed to the well being of the Corporation.

In conclusion, I am pleased to report that the management and staff of the Authority continue to enjoy an excellent rapport with the Chairman and Members of the Board and with the Minister Responsible, the Hon. Gilbert R. Clements, and also with the various departments and agencies, both of the Federal and Provincial Governments, and with the business community at large with whom it must co-operate.

Respectfully submitted,

William M. Jay
General Manager

STATISTICAL INFORMATION

APRIL 1, 1989 — MARCH 31, 1990

(with comparative figures for fiscal 1988/89)

		1988/89		1989/90
Total Number of Applications Received				
Agriculture		117		144
Fisheries & Aquaculture		133		163
Tourism		41		50
Small Business		20		22
		311		379
Total Dollar Value of Applications Received				
Agriculture		10,094,295		11,455,882
Fisheries & Aquaculture		6,362,627		7,536,764
Tourism		6,380,250		7,522,486
Small Business		2,732,270		3,631,925
		25,569,442		30,147,057
Disposition of Applications				
Loan and Credit Offers Approved				
AGRICULTURE	Term Loans	46	56	2,842,952
	Operating Credit	40	48	6,633,555
		86	104	9,476,507
FISHERIES & AQUACULTURE	Term Loans	95	115	2,660,713
	Operating Credit	14	17	3,251,983
		109	132	5,912,696
TOURISM	Term Loans	21	30	2,938,606
	Operating Credit	4	3	134,999
		25	33	3,073,605
SMALL BUSINESS	Term Loans	14	15	1,993,434
TOTAL APPROVED		234	284	20,456,242
Applications withdrawn or Declined		77	95	9,690,815
TOTAL		311	379	30,147,057

STATEMENT OF INTEREST EARNED — ALL DIVISIONS

FOR THE PERIOD APRIL 1, 1989 — MARCH 31, 1990

Agricultural Loans	2,094,839
Fisheries & Aquaculture Loans	777,741
Tourist Loans	2,069,214
Small Business Loans	767,574
Working Capital Credit	686,457
	6,395,825

STATEMENT OF LOAN PORTFOLIOS ASSUMED

FOR THE PERIOD APRIL 1, 1989 — MARCH 31, 1990

Farm Establishment Board	
Balance March 31, 1989	257,534
Payments Received April 1, 1989 — March 31, 1990	88,549
Balance March 31, 1990	168,985

SCHEDULE OF LOANS APPROVED

APRIL 15/70 — MARCH 31/90

YEAR ENDING	Agriculture Capital	Fisheries & Aquaculture Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13	67	31	2	*156	269
	276,539	145,502	374,960	3,379	1,642,800	2,443,180
March 31/72	13	63	24	12	*131	243
	274,700	144,099	220,548	865,500	1,483,228	2,988,075
March 31/73	47	46	35	3	95	226
	669,564	185,239	901,927	51,145	1,272,435	3,080,310
March 31/74	46	94	20	4	87	251
	463,854	465,092	339,560	606,639	1,591,781	3,466,926
March 31/75	107	107	21	12	245	492
	906,246	365,051	529,189	278,950	2,554,176	4,633,612
March 31/76	44	54	14	12	135	259
	510,255	340,481	375,883	226,469	3,053,306	4,506,394
March 31/77	90	75	20	11	127	323
	905,663	295,978	954,247	619,107	3,782,268	6,557,263
March 31/78	107	69	15	10	93	294
	1,571,843	374,230	564,145	679,030	3,046,371	6,235,619
March 31/79	124	84	19	11	141	379
	1,655,196	910,515	1,119,950	830,067	4,875,293	9,391,021
March 31/80	176	103	27	16	104	426
	4,128,794	1,243,816	1,250,735	545,690	4,873,681	12,042,716
March 31/81	170	76	22	15	111	394
	5,215,462	865,635	1,701,220	900,296	6,691,154	15,364,767
March 31/82	133	102	17	11	71	334
	3,831,035	1,489,457	719,872	734,312	4,687,811	11,462,487
March 31/83	142	128	44	5	90	409
	5,812,452	1,834,025	2,366,520	203,375	7,593,698	17,810,070
March 31/84	145	98	47	46	104	440
	7,688,410	1,485,077	4,390,855	5,956,250	7,768,500	27,289,092
March 31/85	61	78	23	26	67	255
	2,348,829	1,735,672	3,331,050	2,495,845	5,583,535	15,494,931
March 31/86	63	85	34	22	52	256
	2,546,290	1,462,534	4,345,150	2,412,250	6,904,917	17,671,141
March 31/87	73	85	48	16	62	284
	3,564,290	1,861,188	4,822,400	1,574,400	10,068,362	21,891,340
March 31/88	52	95	48	12	75	282
	2,159,625	2,462,245	4,590,300	1,509,500	9,768,235	20,489,905
March 31/89	46	95	21	14	58	234
	2,332,025	2,190,105	2,492,400	1,690,745	8,644,832	17,350,107
March 31/90	56	115	30	15	68	284
	2,842,952	2,660,713	2,938,606	1,993,434	10,020,537	20,456,242
TOTAL	1,708	1,719	560	275	2,072	6,334
	49,704,724	22,507,654	38,329,517	24,176,383	105,906,920	240,625,198

STATEMENT OF LOAN FLOW

FOR THE PERIOD APRIL 1, 1989 — MARCH 31, 1990

AGRICULTURE CAPITAL LOANS		
Balance March 31, 1989		17,259,740
Payments Received April 1/89 - March 31/90	4,252,521	
Interest and Disbursements	3,870,374	
Balance March 31, 1990		16,877,593
FISHING & AQUACULTURE CAPITAL LOANS		
Balance March 31, 1989		6,334,834
Payments Received April 1/89 - March 31/90	1,917,906	
Interest and Disbursements	2,454,339	
Balance March 31, 1990		6,871,267
TOURIST CAPITAL LOANS		
Balance March 31, 1989		16,980,795
Payments Received April 1/89 - March 31/90	3,101,110	
Interest and Disbursements	3,608,934	
Balance March 31, 1990		17,488,619
SMALL BUSINESS LOANS		
Balance March 31, 1989		8,575,552
Payments Received April 1/89 - March 31/90	1,916,112	
Interest and Disbursements	2,012,260	
Balance March 31, 1990		8,671,700
WORKING CAPITAL CREDIT-ALL DIVISIONS		
Balance March 31, 1989		3,970,166
Payments Received April 1/89 - March 31/90	9,625,853	
Interest and Disbursements	9,097,125	
Balance March 31, 1990		3,441,438

STATEMENT OF LOANS WRITTEN-OFF AND RECOVERIES

FOR THE PERIOD ENDING MARCH 31, 1990

LOANS WRITTEN-OFF

McCardle Bros. Middleton	549
Norman Clarey Whim Road	168,000
Earl J. MacDonald Souris Line Road	112,500
Douglas, Aaron, William Roloson Ocean View	93,000
Edward Smith St. Teresa	40,000
Albert Termeer St. Peters	51,373
Wim Kremers DeSable	69,109
Albert Asztalos Little Pond	23,186
Allan MacKinnon Southampton, St. Peters R.R.#2	65,609
	623,326

RECOVERIES

Byrne Road Farms Morell	900
*McCardle Bros. Middleton	26,394
	27,294

*Final Dividend Received
From Trustee

LOANS APPROVED / CLASSIFIED BY DIVISION AND RANGE

YEAR ENDING MARCH 31, 1990

Range	Agriculture	Fisheries & Aquaculture	Tourism	Small Business	Total
0 - 9,999	9	32	2	—	43
10,000 - 19,999	20	37	9	—	66
20,000 - 29,999	18	9	—	1	28
30,000 - 39,999	10	22	—	—	32
40,000 - 49,999	9	8	2	4	23
50,000 - 59,999	4	9	4	1	18
60,000 - 69,999	4	4	2	2	12
70,000 - 79,999	2	5	4	—	11
80,000 - 89,999	7	2	—	2	11
90,000 - 99,999	7	—	3	—	10
100,000 - 199,999	8	2	5	2	17
200,000 - 299,999	1	—	2	1	4
300,000 - 399,999	—	—	—	2	2
400,000 - 499,999	—	—	—	—	—
500,000 - 599,999	3	—	—	—	3
OVER 600,000	2	2	—	—	4
	104	132	33	15	284

COMPARISON OF LOANS APPROVED TO LOANS WRITTEN-OFF

APRIL 15, 1970 — MARCH 31, 1990

Year Ending	Total Loans Approved	Write-Offs	Percent of Total Loans	Recovery
March 31, 1971	2,443,180	—	—	—
March 31, 1972	2,988,075	172,698	5.78	—
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.08	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31, 1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487	—	—	2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
March 31, 1985	15,494,931	234,593	1.50	22,408
March 31, 1986	17,671,141	395,958	2.24	1,242
March 31, 1987	21,891,340	136,351	0.06	500
March 31, 1988	20,489,905	657,005	3.20	653
March 31, 1989	17,350,107	564,530	3.25	40,965
March 31, 1990	20,456,242	623,326	3.04	27,294
TOTAL	240,625,198	3,548,050	1.47	329,533

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY

AS OF MARCH 31, 1990

ADMINISTRATION

William M. Jay, A.C.I., C.C.E.	—	General Manager
Eric G. Wood	—	Administration Officer

AGRICULTURAL DIVISION

Gerald F. Gahan, M.C.I.	—	Manager
Anne E. Bonnell, B.B.A., M.C.I.	—	Loans Officer II
George G. MacCabe, M.C.I.	—	Loans Officer II
Donald C. Aitken	—	Loans Officer II
Michael F. Bradley, Ag. Tech.	—	Field Officer/Appraiser
J. Kevin Curley, B. Comm., M.C.I.	—	Field Officer/Appraiser
Hugh C. Campbell	—	Field Officer/Appraiser

FISHERIES AND AQUACULTURE DIVISION

D. W. (Dan) Smith, M.C.I.	—	Manager
J. Kenneth MacDonald, M.C.I.	—	Field Officer/Appraiser and Vessel Inspector

TOURISM AND SMALL BUSINESS DIVISION

Eric R. MacNeill, M.C.I.	—	Manager
Gerald B. Soy	—	Field Officer/Appraiser

SUPPORT STAFF

Ms. Daphne Andrews	—	Secretary to the General Manager
Ms. Nancy M. Lecky	—	Accounting Technician I
Ms. Elizabeth Macneill	—	Secretary
Mrs. Alfreda Moase	—	Receptionist/Cashier/Clerk
Mrs. Elva Myers	—	Secretary

CONSULTANTS TO MANAGEMENT

Consulting Engineer	—	Mr. Norman F. Stewart P. Eng., B.E. (Civil), M.E.I.C.

AUDITORS

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

June 12, 1990

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1990 and the statements of liability - Province of Prince Edward Island, interest income and expenses, and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1990 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

PRINCE EDWARD ISLAND LENDING AUTHORITY

BALANCE SHEET AS AT MARCH 31, 1990

ASSETS

	1990 $	1989 $
CURRENT ASSETS		
Cash	2,545,850	1,368,337
Accounts receivable (note 4)	40,835	—
Short-term loans plus interest (Schedule A)	2,802,472	3,193,815
Recovery from Department of Agriculture - Province of Prince Edward Island (note 2)	497,923	—
Properties in inventory (note 3)	390,316	1,393,465
Sundry deposits	800	800
	6,278,196	5,956,417
MORTGAGE LOANS PLUS ACCRUED INTEREST (Schedule B)	51,645,969	49,860,686
	57,924,165	55,817,103

LIABILITIES

CURRENT LIABILITIES		
Payable to Department of Finance	2,552,646	1,972,039
Accrued liabilities	34,660	12,841
	2,587,306	1,984,880
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 5)	55,336,859	53,832,223
	57,924,165	55,817,103

CONTINGENT LIABILITY (note 7)

SIGNED ON BEHALF OF THE BOARD

Peggy M. Cooley
Chairman

Secretary-Treasurer

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF LIABILITY — PROVINCE OF PRINCE EDWARD ISLAND

AS AT MARCH 31, 1990

	1990	1989
	$	$
BALANCE — BEGINNING OF YEAR	53,832,223	53,810,522
Add: Advances from Province	10,767,420	11,485,957
Interest on advances	6,726,206	6,683,777
Bad debts recovered	27,294	40,965
	71,353,143	72,021,221
Deduct: Payments made to Province	15,959,449	17,912,339
Excess of interest expense over interest income	32,476	227,964
Increase in provision for possible future losses on loans	24,359	48,695
	16,016,284	18,188,998
BALANCE — END OF YEAR	55,336,859	53,832,223

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF INTEREST INCOME AND EXPENSES

FOR THE YEAR ENDED MARCH 31, 1990

	1990 $	1989 $
INTEREST INCOME	6,698,423	6,457,523
INTEREST EXPENSES		
Bank	4,693	1,710
Province of P.E.I.	6,726,206	6,683,777
	6,730,899	6,685,487
EXCESS INTEREST EXPENSE FOR THE YEAR (note 6)	32,476	227,964

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF OPERATING FUNDS

FOR THE YEAR ENDED MARCH 31, 1990

	Budget (Note 8) Appropriation 1990 $	Actual 1990 $	Actual 1989 $
OPERATING GRANT — PROVINCE OF PRINCE EDWARD ISLAND	941,800	935,726	903,301
OPERATING EXPENSES			
Salaries and wage levies	700,800	696,244	666,033
Rent - Office and office equipment	106,100	106,100	99,878
- Automobiles	15,900	15,894	15,033
Travel and field call expenses	15,400	14,341	14,142
Telephone	18,900	18,900	16,713
Professional fees	9,800	9,800	22,289
Directors fees and expenses	15,100	15,099	14,500
Office supplies	13,500	13,499	13,093
Insurance	600	600	540
Legal and collection costs	6,700	6,655	10,239
Repairs and maintenance	1,400	1,400	1,169
Furniture and equipment	26,400	26,400	16,475
Postage	5,000	4,994	4,866
Advertising	1,000	1,000	416
General expenses	3,300	3,070	6,590
Loan costs	1,900	1,730	1,325
	941,800	935,726	903,301
EXCESS OPERATING GRANT FOR THE YEAR	—	—	—

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1990

1. ACCOUNTING POLICIES

Asset valuation

(i) Loans are stated at cost less a provision for possible future losses based on the loss experience of prior years and local economic conditions.

The Authority has been using a provision calculated at 2.5% on the year end balances of the loans.

The Authority has a policy to give consideration to possible future losses on loans arising as a result of changed economic conditions resulting in losses which would materially differ from those provided for under the normal provision calculated at 2.5%.

(ii) Fixed assets are expensed in the accounts of the Authority at the time they are acquired.

Interest income

The Authority does not record interest on those loans which are considered doubtful. Although interest is not recorded in the accounts, the amount is calculated for collection purposes and maintained in a separate account.

2. RECOVERY FROM DEPARTMENT OF AGRICULTURE — PROVINCE OF P.E.I.

The Authority has agreed to administer the fur advance payment program for the provincial Department of Agriculture. The program consists of advances made to fur farmers on P.E.I. on which interest is calculated at current rates and charged monthly to the Department of Agriculture. On July 1, 1990, all outstanding amounts under the program will be paid by the Department of Agriculture.

3. PROPERTIES IN INVENTORY

The inventory consists of farm and commercial properties taken by way of foreclosures and/or Quit Claim Deeds as a result of borrowers not complying with the terms and conditions of their loans. A provision for anticipated losses of $74,869 is included in the overall provision for mortgage loan losses (schedule B) since the properties in inventory originated as mortgage loans. The properties in inventory will be disposed of through public tender or alternate means.

4. ACCOUNTS RECEIVABLE

The accounts receivable arose as a result of the disposal of certain properties in inventory on which legal documents were incomplete causing delays in receipt of proceeds. The Authority has taken action to ensure the receipt of the balance shown.

5. LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by the following debentures issued by the Authority to the Province at varying interest rates and redemption periods. The interest rate established on these debentures is determined by calculating the average of all loans made throughout the year.

	1990		1989	
	Debenture Amount	Term Remaining	Debenture Amount	Term Remaining
%	$		$	
16.75	5,548,499	12 years	5,695,759	13 years
10.25	630,327	9 years	671,987	10 years
10.50	504,261	9 years	537,166	10 years
11.00	249,909	9 years	265,806	10 years
11.00	80,713	9 years	85,847	10 years
10.25	488,767	8 years	527,182	9 years
10.00	358,012	8 years	386,473	9 years
10.38	614,108	7 years	672,084	8 years
13.25	3,736,788	6 years	4,131,117	7 years
12.75	2,077,196	5 years	2,363,210	6 years
12.375	7,067,420	5 years	—	—
12.375	3,700,000	5 years	—	—
11.875	3,770,656	4 years	4,000,000	5 years
11.875	7,283,050	4 years	7,485,957	5 years
10.25	80,803	4 years	96,540	5 years
11.00	21,254	4 years	25,320	5 years
10.50	2,630	4 years	3,138	5 years
10.25	9,023,748	3 years	9,352,010	4 years
10.00	131,121	3 years	167,140	4 years
10.25	40,173	3 years	51,150	4 years
10.75	7,557,801	2 years	7,873,581	3 years
10.38	47,433	2 years	67,863	3 years
10.00	6,239,617	1 year	6,545,718	2 years
12.25	—	—	6,814,054	1 year
Total of debentures	59,254,286		57,819,102	
Accounting adjustment for provision for losses on loans	3,917,427		3,986,879	
	55,336,859		53,832,223	

5. LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (cont'd)

The aggregate principal payment made on the debentures on March 31, 1990 was $9,332,236.

The current and renewable portion of the liability to the Province of Prince Edward Island for the amount due or renewable within one year is $9,104,382 (1989 — $9,332,236).

6. EXCESS INTEREST EXPENSE

The excess interest expense for the year is due in part to a reduction made in the year ended March 31, 1986 in the interest rate charged on those agriculture loans which carry a rate in excess of 14% for 5 years, 15% for 10 years, and 15 1/2% for 20 years. The rate reduction decreased the interest income derived from loans without a corresponding decrease in interest expense which is paid to the Province on its debentures.

The excess interest expense is also due to paid out loans of customers where the corresponding debenture to the Province carrying higher than current interest rates remains in existence. In addition, the Authority's policy not to record interest income on non-performing loans causes excess interest expense.

7. CONTINGENT LIABILITY

The Authority has become aware of two potential claims arising as a result of the sale of inventoried property. The potential claims are estimated at $42,000 and it is management's view these potential claims will be settled by a claim by the Authority against the appropriate individual.

8. BUDGET APPROPRIATION

The amounts appearing under the budget column were not audited.

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST

AS AT MARCH 31, 1990

	Agriculture $	Fisheries & Aqua-culture $	Tourist $	Small Business $	Total 1990 $	Total 1989 $
SCHEDULE A — SHORT-TERM LOANS						
Principal balances					2,942,373	3,970,166
Provision for possible future losses					139,901	776,351
					2,802,472	3,193,815
SCHEDULE B — MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority —						
Principal and interest balance	168,985	—	—	—	168,985	257,534
Accrued interest	4,349	—	—	—	4,349	6,871
	173,334	—	—	—	173,334	264,405
Provision for possible future losses	4,333	—	—	—	4,333	6,610
	169,001	—	—	—	169,001	257,795
Mortgage loans transacted by Lending Authority —						
Principal balances and interest due	17,960,001	6,871,267	17,503,619	8,671,700	51,006,587	49,150,921
Accrued interest	481,511	464,040	929,068	52,558	1,927,177	1,860,774
	18,441,512	7,335,307	18,432,687	8,724,258	52,933,764	51,011,695
Provision for possible future losses	493,012	183,383	460,442	319,959	1,456,796	1,408,804
	17,948,500	7,151,924	17,972,245	8,404,299	51,476,968	49,602,891
	18,117,501	7,151,924	17,972,245	8,404,299	51,645,969	49,860,686